Barry County Substance Abuse Services Hastings, Michigan

FINANCIAL STATEMENTS

September 30, 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Barry County Substance Abuse Services
Hastings, Michigan

We have audited the accompanying component unit financial statements of the Barry County Substance Abuse Services, a component unit of Barry County, Michigan as of September 30, 2003, as listed in the table of contents. These component unit financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Barry County Substance Abuse Services as of September 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with <u>Government Auditing Standards</u>, we have also issued a report dated January 14, 2004, on our consideration of Barry County Substance Abuse Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 are not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements that collectively comprise the Barry County Substance Abuse Services financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Barry County Substance Abuse Services. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

aboham & Liffrey, P.C.

January 14, 2004

Individual, Group and Family Counseling

Barry County Substance Abuse Services

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Management's Discussion and Analysis For Fiscal Year Ended September 30, 2003

Barry county Substance Abuse Services is in its initial year of implementing the provisions of Governmental Accounting Standards Board Statements 34 (GASB 34) with the enclosed financial statements. This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Agency's financial performance during the fiscal year ended September 30, 2003, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the agency's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statement.

Comparative analysis will be provided in future years as it is not required in the first year of GASB 34 implementation.

Financial Highlights

- The assets of the agency exceeded its liabilities at September 30, 2003, by \$23,240 at the government-wide level. This entire amount, \$23,240 (unrestricted net assets) may be used to meet the agency's ongoing obligations.
- The agency's total net assets increased by \$40,239 as a result of this year's operations.
- As of September 30, 2003, the agency's governmental fund reported an ending fund balance of \$36,670, an increase of \$33,865.
- As of September 30, 2003, the unreserved and undesignated fund balance was \$36,670.

Overview of the Financial Statements

Barry County Substance Abuse Services basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire agency. They present an overall view of the agency's finances, reporting the assets and liabilities on fiscal year ending September 30, 2003.

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The statement of net assets present information on all of the Barry County Substance Abuse Services assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2002/03. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Barry County Substance Abuse Services program is supported by intergovernmental revenues, governmental grants, fees and charges for services, and other local and miscellaneous revenues. The governmental activities of the agency are all considered health and welfare programs. Barry County Substance Abuse Services does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to Barry County Substance Abuse Services.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Barry County Substance Abuse Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Barry County Substance Abuse Services operates with one fund, which is considered a governmental fund.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Barry County Substance Abuse Services adopts an annual appropriated budget for its Special Revenue Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 8-13 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-20 of this report.

Governmental-wide Financial Analysis: As notes earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Barry County Substance Abuse Services, assets exceeded liabilities by \$23,240. A comparative analysis of data will be presented in future years when the information is available.

	<u>2003</u>
Current assets/total assets	\$ 47,661
Current liabilities Non-current liabilities	 17,169 7,252
Total liabilities	 24,421
Total net assets unrestricted	\$ 23,240

Unrestricted net assets (the part of net assets that can be used to finance day to day operations) increased by \$40,239.

The following table shows the changes of net assets for the year ended September 30, 2003.

	<u>2003</u>
Program revenues Charges for services Operating grants and	\$ 103,167
other/contributions	367,769
General revenue Miscellaneous	720
Total revenues	471,656
Total Program expenses	431,417
Change in net assets	\$ 40,239

For the year ended September 30, 2003 combined operating grants and charges for services increased \$28,580 due to added programs and additional services provided in FY2003.

Total expenditures decreased approximately 3% compared to last year. This was due to better monitoring of expenditures in FY2003.

Financial Analysis of the Government's Fund

As noted earlier, Barry County Substance Abuse Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of Barry County Substance Abuse Services governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Barry County Substance Abuse Services financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Barry County Substance Abuse Services governmental fund reported an ending fund balance of \$36,670, an increase of \$33,865 in comparison with the prior year.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved-undesignated fund balance/total fund balance represent approximately 8.4 percent of total fund expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, Barry County Substance Abuse Services Board of Directors could have amended the budget to take into account events that occur during the year. For the year ended September 30, 2003, there were no amendments.

There were no significant variances between the original final amended budget and actual amounts.

Capital Asset and Debt Administration

Capital Assets: Barry County Substance Abuse Services utilizes Barry County's capital asset policy threshold of \$5,000 to record all capital assets. By utilizing the County's threshold, the agency does not report any of their capital assets in the financial statements.

Long-term Obligations: The agency has long-term obligation related to compensated absences (e.g., unused vacation and personal leave). The total liability for this long-term obligation at September 30, 2003, is \$13,430.

Economic Factors and Next Year's Budget and Rates

FY03 saw the implementation and growth of two "drug courts" serving Barry County that increased revenues. The Barry County Drug Court presided over by Judge James Fisher, in which the court purchased time for drug court administrative duties performed by BCSAS personnel (\$7,500 in FY2003) and Barry County Juvenile Drug Court presided over by Judge Richard Shaw which increased the purchase of treatment services (\$11,291) during FY2003.

Planning for FY2004 was based on an assumption that demand would continue at current rates for all services. Staffing levels, thus, remain the same and salaries and fringe benefits are based on present staffing with adjustment for known increases in fringe benefits and assumed increases in salaries.

Since an overall revision of the salary schedule is not contemplated, increases to salaries are based on awards for annual service. The planning base for these increases was 3% as has historically been the case.

Many increased fringe benefit costs were known at the time of budget development and are included in FY2004 planning: employee health insurance premiums and retirement plan payments increased markedly for the coming year.

Revenues estimates are based on governmental grants projected prior to budget development. A cautionary note was sounded at year-end that the State of Michigan has experienced decreased revenues such that overall availability could be affected. In addition, planning assumes the continued demand of two drug courts that are funded by governmental grants that have not been approved to date. Revisions would be necessary should any of these sources of funding be reduced.

No increase in the rate schedule for services offered by the organization has been contemplated.

Planning for the coming year includes the assumption of a major purchase of computer hard and software. The organization has accepted bids and only awaits the resolution of the revenues picture (above) before committing to such a purchase.

CONTACTING BARRY COUNTY SUBSTACE ABUSE FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, taxpayers, supporters and creditors with a general overview of Barry County Substance Abuse Services finances and to show accountability for the money it receives. If you have any questions, contact the Executive Director, Barry County Substance Abuse Services, 206 W. Court St., Suite 104, Courts and Law Building, Hastings, MI 49058 or call 877-489-9084.

STATEMENT OF NET ASSETS

September 30, 2003

ASSETS	Governmental Activities
Current assets	
Cash	\$ (3,964)
Due from state	50,423
Due from others	1,202
TOTAL ASSETS	47,661
LIABILITIES	
Current liabilities	
Accounts payable	1,923
Accrued liabilities	9,068
Current portion of compensated absences	6,178
Total current liabilities	17,169
Non-current liabilities	
Compensated absences	7,252
TOTAL LIABILITIES	24,421
TOTAL NET ASSETS	
Unrestricted	\$ 23,240

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2003

		Program	and C	Expense) Changes t Assets	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions		nmental ivities
Governmental activities Health and welfare	\$ 431,417	\$ 103,167	\$ 367,769	\$	39,519
General revenues: Miscellaneous					720
Change in net assets					40,239
Net assets, beginning of the year					(16,999)
Net assets, end of the year				\$	23,240

GOVERNMENTAL FUND BALANCE SHEET

September 30, 2003

	Special Revenue	
ASSETS Cash Due from state Due from others	\$	(3,964) 50,423 1,202
TOTAL ASSETS	\$	47,661
LIABILITIES Accounts payable Accrued liabilities	\$	1,923 9,068
TOTAL LIABILITIES		10,991
FUND EQUITY Fund balance Unreserved - undesignated		36,670
TOTAL LIABILITIES AND FUND EQUITY	\$	47,661

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

September 30, 2003

Total fund balance - governmental funds

\$ 36,670

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet Long-term liabilities at year-end consist of:

Compensated absences

(13,430)

Net assets of governmental activities

\$ 23,240

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

For the Year Ended September 30, 2003

REVENUES Intergovernmental Federal grants State grants Local grants Charges for services Other	\$ 215,286 81,268 65,539 103,167 6,396
TOTAL REVENUES	471,656
EXPENDITURES Health and welfare	
Treatment	227,850
Prevention	123,115
Women specialty	58,340
Assessment	 28,486
TOTAL EXPENDITURES	 437,791
EXCESS OF REVENUES OVER	
EXPENDITURES	33,865
Fund balance, beginning of year	 2,805
Fund balance, end of year	\$ 36,670

RECONCILIATION OF THE CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

September 30, 2003

Net change in fund balances - total governmental funds	\$ 33,865
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in accrued compensated absences	6,374
Change in net assets of governmental activities	\$ 40,239

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Barry County Substance Abuse Services was established in 1976 under the charter of Barry County Board of Commissioners, to develop, promote and support programs in substance abuse prevention and treatment. The Barry County Substance Abuse Service activities are overseen by a nine (9) member board of Directors of which three (3) members are County Commissioners and six (6) members are from the community at large. Much of Barry County Substance Abuse Services' funding comes from a contract with Kalamazoo Human Service Department, Substance Abuse Services, which is charged with funding and overseeing services in Barry, Branch, Kalamazoo, and St. Joseph Counties.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Barry County Substance Abuse Services. The Agency is considered a component unit of Barry County, Michigan and is blended in Barry County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Hastings, Michigan.

2. Basis of Presentation

The accounts of the Agency are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The fund reported in the component unit financial statements is described as follows:

GOVERNMENTAL FUND

a. <u>Special Revenue Fund</u> - This fund is used to account for the proceeds of specific revenue sources (grants and charges for services) that are legally restricted to expenditures for specified purposes dictated by legal, regulatory or administrative requirements.

The financial statements are prepared on the basis of Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and related standards. This new statement provides for significant changes in terminology and includes recognition of capital grants in the Statement of Revenues, Expenses and Changes in Fund Net Assets; a presentation of net assets; as well as an inclusion of a management discussion and analysis; other supplementary information; and other changes.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The Special Revenue Fund budget shown in the financial statements was prepared on the same modified accrual basis used to reflect actual results. The Agency employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Agency prepares the proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to October 1, the budget is legally enacted through board approval.
- c. The budget is legally adopted at the total expenditure level; however, they are maintained at the account level for control purposes.
- d. Budgeted amounts are reported as originally adopted or amended by the Agency during the year.

6. Cash

The Agency operated out of a pooled account which the County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as investments when present.

7. Receivables

Receivables consist of amounts due from governmental units for various programs and accounts receivable related to charges for services.

8. Long-Term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Accrued Vacation and Sick

In accordance with personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the personnel policies handbook.

Vested vacation and sick leave earned as of September 30, 2003, including related payroll taxes, is recorded in the government-wide financial statements.

10. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

12. Accounting Change

Effective October 1, 2002, the Barry County Substance Abuse Services implemented the provisions of Governmental Accounting Standards Board Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34) along with all related statements and interpretations. Changes to the Commission's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Agency's overall financial position and results of operations has been added.
- Government-wide financial statements (statement of net assets and statement of activities) prepared
 using full accrual accounting for all of the Agency's activities have been provided. A reconciliation is
 presented between the fund level (modified accrual) and government-wide (full accrual) statements since
 their measurement focus is not the same.
- Compensated absences reported on the statement of net assets include \$13,430, which was previously reported in the General Long-term Debt Account Group.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. As a result, certain note disclosures have been added and/or amended.

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE B: POOLING OF CASH AND CASH OVERDRAFT

The Agency, as part of the County, utilizes pooled cash accounts. Cash overdrafts as of September 30, 2003 are as follows for the Agency:

Pooled
Cash Financial
Fund Overdraft Statements

Substance Abuse \$(3,964) \$(3,964)

Since the Barry County Substance Abuse Services component unit fund operates out of the County's pooled account, the cash deficit is covered by the cash balances of other Barry County funds participating in the pool.

NOTE C: CASH

In accordance with Michigan Compiled Laws, the Agency is authorized to invest in the following investment vehicles:

- 1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- 2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- 3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- 4. The United States government or federal agency obligations repurchase agreements.
- 5. Bankers acceptances of United States banks.
- 6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash on the balance sheet consists of the following:

Deposits with Barry County common cash pool account

<u>\$(3,964)</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE C: CASH - CONTINUED

The Agency's bank deposits at September 30, 2003, are composed of the following:

Carrying Bank
<u>Amount Balance</u>

5(3,964) \$(3,964)

The deposits with Barry County in the common pooled cash account in the amount of \$(3,964) cannot be categorized due to being combined with other County funds.

NOTE D: LONG-TERM DEBT

The following is a summary of the changes in long-term debt (including current portion) of the Agency for the year ended September 30, 2003:

	_	alance	A 1 1''		_		_	alance
	Oct.	1, 2002	<u>Addit</u>	<u>ions</u>	<u>De</u>	<u>letions</u>	Sepi	<u> 30, 2003</u>
Accumulated annual and sick leave	\$	19,804	\$		\$	6,374	\$	13,430

Accumulated Vacation and Sick

In accordance with Agency personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their personnel policies handbook.

The dollar amount of these vested rights including related payroll taxes, amounted to \$10,898 and \$2,532 for vacation and sick leave, respectively, at September 30, 2003. This amount, \$13,430, has been reported as a current and non-current liability, based on management's determination, in the government-wide financial statements.

NOTE E: EMPLOYEE RETIREMENT SYSTEM

The Agency is included within the County's retirement plan and the County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan. The retirement plan also includes employees that work for County departments who are excluded from the County's combined financial statements. The excluded departments (component units) that are in the plan include the Barry County Medical Care Facility, Barry County Transit, and Barry County Community Mental Health Services.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service Age 55 with 15 or more years of credited service Age 60 with 10 or more years of credited service Mandatory Retirement: None

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE E: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2002, the County's annual pension cost of \$625,915 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,					1,
		<u>2000</u>		<u>2001</u>		<u>2002</u>
Actuarial value of assets	\$	18,300,699	\$	19,730,591	\$	19,386,651
Actuarial accrued liability (AAL) (entry age)		22,754,940		26,673,502		27,151,679
Unfunded AAL		4,454,241		6,942,911		7,765,028
Funded ratio		80%		74%		71%
Covered payroll		10,843,018		11,711,650		10,625,853
UAAL as a percentage of covered payroll		41%		59%		73%
Annual pension cost		574,248		596,306		625,915
Percentage of APC contributed		100%		100%		100%
Net pension obligation		_		-		-

This trend information was obtained from the most recently issued actuarial reports.

The Agency's annual pension contribution was \$27,226.

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE F: RISK MANAGEMENT

The Agency, as a fund of Barry County, is protected from losses as described in the note captioned "Risk Management" within the County's Annual Financial Report.

NOTE G: RELIANCE ON FUNDING SOURCES

The Agency receives a majority of its support from the County of Kalamazoo substance abuse program, State, and local grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Agency's programs and activities.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - SPECIAL REVENUE FUND

For the Year Ended September 30, 2003

	Original	Amended		Variance Favorable
	Budget	Budget	Actual	(Unfavorable)
REVENUES				
Intergovernmental				
Federal grants	\$ 197,287	\$ 197,287	\$ 215,286	\$ 17,999
State grants	74,496	74,496	81,268	6,772
Local grants	47,400	47,400	65,539	18,139
Charges for services	141,233	141,233	103,167	(38,066)
Other	16,550	16,550	6,396	(10,154)
TOTAL REVENUES	476,966	476,966	471,656	(5,310)
EXPENDITURES				
Health and welfare				
Treatment	266,198	266,198	227,850	38,348
Prevention	122,006	122,006	123,115	(1,109)
Women specialty	58,557	58,557	58,340	217
Assessment	30,205	30,205	28,486	1,719
TOTAL EXPENDITURES	476,966	476,966	437,791	39,175
EXCESS OF REVENUES OVER				
EXPENDITURES	-0-	-0-	33,865	33,865
Fund balance, beginning of year	2,805	2,805	2,805	-0-
Fund balance, end of year	\$ 2,805	\$ 2,805	\$ 36,670	\$ 33,865



Special Revenue Fund

SCHEDULE OF EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2003

	Treatment		Prevention		Women Specialty	
EXPENDITURES						
Salaries and wages	\$ 16	35,241	\$	79,343	\$	27,044
Payroll taxes and other fringe benefits		14,770		24,183		18,841
Total salaries and related expenditures	21	10,011		103,526		45,885
Travel		1,467		4,140		992
Supplies and materials		4,610		8,994		3,911
Contracted services		555		2,425		2,288
Other		1,207		4,030		5,264
TOTAL EXPENDITURES	\$ 22	27,850	\$	123,115	\$	58,340

Ass	sessment	 Total		
\$	19,927 4,345	\$ \$ 291,555 92,139		
	24,272	383,694		
	194 2,186 1,119 715	6,793 19,701 6,387 21,216		
\$	28,486	\$ 437,791		

Principals

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Karen A. Roka, CPA James A. Huguelet, CPA Alan D. Panter, CPA William I. Tucker IV, CPA Kurt M. Lemmen, CPA



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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Barry County Substance Abuse Services
Hastings, Michigan

We have audited the component unit financial statements of the Barry County Substance Abuse Services as of and for the year ended September 30, 2003, and have issued our report thereon dated January 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Barry County Substance Abuse Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Barry County Substance Abuse Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses.

This report is intended for the information and use of management and the Board of Directors of Barry County Substance Abuse Services and the pass through grantors and is not intended to be used by anyone other than these specified parties.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

abroham & Liffrey, P.C.

January 14, 2004

Principals

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MANAGEMENT LETTER

To the Board of Directors Barry County Substance Abuse Services Hastings, Michigan

As you know, we have recently completed our audit of the records of the Barry County Substance Abuse Services as of and for the year ended September 30, 2003. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

1. All invoices should be approved by the Director or a Board Member.

During our audit, we noted several instances where neither the director's nor a board member's approval for invoices to be paid was documented on the invoice. This issue was noted and reported in our audit comments in the prior year.

We suggest that the director or a board member review all invoices and initial to document approval.

2. The threshold for capital assets should be evaluated.

During our audit, we determined that the Agency utilizes the County's capital asset policy threshold of \$5,000 to record capital assets. By utilizing the County's threshold, the Agency does not report any of their capital assets in the financial statements.

We suggest that the Agency review this policy to determine if it meets the Agency's needs. The Agency may want to consider a different capital asset threshold amount that is more appropriate for the Agency. Once a threshold is established the Agency should inventory all applicable capital assets and provide a list for audit purposes.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements dated January 14, 2004.

This report is intended solely for the information of management and the Board of Directors of Barry County Substance Abuse Services and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

abroham & Liffrey, P.C.

January 14, 2004

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To the Board of Directors
Barry County Substance Abuse Services
Hastings, Michigan

We have audited the component unit financial statements of the Barry County Substance Abuse Services for the year ended September 30, 2003, and have issued our report thereon dated January 14, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated September 17, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts, may exist and not be detected by us.

In planning and performing our audit, we considered the Barry County Substance Abuse Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Barry County Substance Abuse Services' financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contacts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Barry County Substance Abuse Services are described in Note A to the basic financial statements. The new significant accounting policies that were adopted and the application of existing policies that were changed during 2003 was described in Note A to the financial statements, the Barry County Substance Abuse Services changed accounting policies related to the reporting model by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments, as of October 1, 2003, along with all related statements and interpretations for the year ended September 30, 2003. We noted no transactions entered into by Barry County Substance Abuse Services during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the component unit financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Barry County Substance Abuse Services' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Barry County Substance Abuse Services, either individually or in the aggregate, indicate matters that could have a significant effect on the Barry County Substance Abuse Services' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Barry County Substance Abuse Services' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the management and the Barry County Substance Abuse Services and should not be used for any other purpose.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

abroham & Loffrey, P.C.

January 14, 2004